

## Message Text

LIMITED OFFICIAL USE

PAGE 01 BRUSSE 07265 201629Z

64

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01 /183 W

----- 091122

R 201444Z SEP 74

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 2064

INFO USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

LIMITED OFFICIAL USE BRUSSELS 7265

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: NA

TAGS: EFIN, EGEN BE

SUBJECT: THIS BELGIAN GOVERNMENT'S CURRENT USE OF FISCAL MEANS  
AS AN ANTI-INFLATION TOOL

REF: BRUSSELS 6916

1. SUMMARY: DESPITE THE PROPOSED TAX INCREASES ANNOUNCED IN AUGUST, THE BELGIAN BUDGET OF BF 628 BILLION FOR 1975 WILL PROBABLY RUN A DEFICIT OF BF 3-13 BILLION. WHILE PROJECTED REVENUE MAY THEORETICALLY MEET ALMOST ALL EXPENDITURES, WE DOUBT, FOR EXAMPLE, THAT STRICTER ENFORCEMENT OF TAX LAWS WILL BRING IN THE BF 7 BILLION SCHEDULED. THE SEPTEMBER DECISION TO HOLD OFF INCREASING BUS AND TRAM FARES MEANS THAT UNLESS OTHER REVENUE SOURCES ARE FOUND, THOSE NATIONALIZED INDUSTRIES WILL NEED HIGHER SUBSIDIES THAN PROGRAMMED IN AUGUST. HE HAVE, THEREFORE, CONCLUDED THAT THE BELGIANS HAVE NOT YET REALLY USED FISCAL POLICY TO COMBAT

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRUSSE 07265 201629Z

INFLATION. END SUMMARY.

2. INTRODUCTION: DURING THE SUMMER THE BELGIAN GOVERNMENT CLAIMED SEVERAL TIMES THAT, IN ADDITION TO IMPOSING A CREDIT SQUEEZE ON THE ECONOMY, IT WAS USING FISCAL POLICY IN ITS ANTI-INFLATION EFFORTS. OUR SOURCES IN THE MINISTRIES OF FINANCE AND ECONOMICS, HOWEVER, SUGGEST THAT THE TINDEMANS GOVERNMENT DOES NOT FEEL IT CAN EITHER RAISE TAXES HIGH ENOUGH TO COVER ITS BUDGET OR SERIOUSLY CUT THE BUDGET DOWN TO MEET REVENUE WITHOUT INCURRING IRREPARABLE POLITICAL DAMAGE TO THE PRESENT COALITION AND WITHOUT DESTROYING ITS CHANGES FOR AN ENLARGEMENT TO INCLUDE MORE LINGUISTIC PARTIES.

3. THE FACTS: (A) THE BUDGET -- IN 1972, THE DEFICIT IN THE ORDINARY BUDGET WAS BF 5 BILLION; IN 1973 IT WAS BF 11 BILLION AND FOR 1974 IT WILL PROBABLY BE WELL OVER BF 12 BILLION. THE MID-AUGUST VERSION OF THE PROPOSED BELGIAN BUDGET FOR 1975 (BF 628 BILLION) PROJECTED AN INITIAL BUDGET DEFICIT FOR 1975 OF ALMOST FB 20 BILLION. SINCE THE ADJUSTED BUDGET (I.E. THAT INCLUDING SUPPLEMENTAL APPROPRIATIONS) ALWAYS INCREASES THE DEFICIT AND SINCE SEVERAL PROJECTED SOURCES OF INCOME HAVE BEEN SUSPENDED, THE EXPECTED DEFICIT IS ALREADY BELIEVED TO BE HIGHER THAN PROJECTED. WITH A MINIMUM BUDGET RISE OF 17 PERCENT IN THE ADJUSTED 1975 BUDGET OVER THE ADJUSTED 1974 BUDGET, SUBSTANTIAL INFLATIONARY PRESSURES WILL RESULT FROM THE RESULTING BUDGETARY DEFICIT SINCE INCREASED REVENUES WILL ONLY MEET 8-10 PERCENT OF THE INCREASE.

4. (B) THE NEW REVENUE SOURCES--NOT MANY OBSERVERS OUTSIDE THE GOVERNMENT BELIEVE THAT THE NEW TAX MEASURES ANNOUNCED IN AUGUST, 1974, ARE LIKELY TO BRING IN MUCH MORE THAN BF 15-18 BILLION. (FOR EXAMPLE, ALTHOUGH THE GOVERNMENT CLAIMS THAT BF 7 BILLION WILL BE BROUGHT IN DURING 1975 BY STRICTER ENFORCEMENT OF THE EXISTING TAX LAWS, ONE INFORMED ECONOMICS MINISTRY SOURCE INDICATES THAT IT WILL TAKE FIVE YEARS BEFORE THE INCREASED COST OF STRICTER ENFORCEMENT YIELDS ENOUGH TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRUSSE 07265 201629Z

COVER EVEN THE COST OF THE ENFORCEMENT ITSELF.)

5. A FINANCE MINISTRY SOURCE, KNOWLEDGEABLE ON BUDGET AFFAIRS, IS OPTIMISTIC ABOUT THE OTHER NEW TAX MEASURES, HOWEVER, SUCH AS SELECTIVE INCREASES IN THE VAT, INCREASED ROAD TAXES, INCREASES IN INCOME TAXES FOR VERY HIGH INCOMES AND TAXES ON CERTAIN BUSINESS ACTIVITIES. THESE OUR SOURCE BELIEVES, SEEM LIKELY TO BRING IN CLOSE

TO THE EXPECTED AMOUNT BUT IT IS HOPED WILL OTHERWISE HAVE A NEUTRAL EFFECT ON PRICES. THE SEPTEMBER DECISION TO DEFER RISES IN TRAM AND BUS FARES (WHICH ARE NOW COMPARATIVELY LOW) WILL UNDOUBTEDLY REQUIRE THAT GOVERNMENT SUBSIDIES TO THESE NATIONALIZED INDUSTRIES BE RAISED. THIS WILL PROBABLY INCREASE THE BUDGETARY DEFICIT BY ABOUT BF 1-3 BILLION.

6. CONCLUSIONS : FROM THE ABOVE, WE CONCLUDE THAT THE PRESENT BELGIAN GOVERNMENT HAS NOT YET USED SERIOUSLY FISCAL POLICY TO COMBAT INFLATION.

7. FYI: FINANCE MINISTER DE CLERCQ IN A PRIVATE CONVERSATION AT AMERICAN EMBASSY WITH VISITING PROFESSOR MILTON FRIEDMAN, DISPUTED FRIEDMAN'S CONTENTION THAT GOVERNMENT DEFICIT SPENDING WAS THE MAJOR CAUSE OF INFLATION. HE QUESTIONED PROF. FRIEDMAN'S ADVOCACY OF INDEXATION OF GOVERNMENT BUDGET AND AUSTERE GOVERNMENT BUDGETS TO COMBAT INFLATION, AS POLITICALLY DIFFICULT AND UNREALISTIC. END FYI.

8. COMMENT: AS DESCRIBED IN OUR RECENT TELEGRAM ON THE CREDIT SQUEEZE (BRUSSELS 6916) WE CONSIDER THE BELGIANS ARE, SO FAR, RELYING HEAVILY ON MONETARY POLICY TO ATTAIN THEIR ANTI-INFLATIONARY GOALS. OUR SOURCES IN THE FINANCE MINISTRY TELL US THAT THE MINISTER AND HIS POLITICAL ASSOCIATES BELIEVE THAT FURTHER TAX RISES, IF ANY, MUST AWAIT THE SUCCESS OR FAILURE OF THIS FALL'S EFFORT TO ENLARGE THE TINDEMANS CABINET THROUGH INCLUSION OF ADDITIONAL LINGUISTIC PARTNERS. FIRESTONE

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CREDIT, ECONOMIC CONDITIONS, INFLATION, POLICIES, CURRENCY CONTROLS, CENTRAL GOVERNMENT  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 20 SEP 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974BRUSSE07265  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740265-0444  
**From:** BRUSSELS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740929/aaaaayff.tel  
**Line Count:** 145  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** BRUSSELS 6916  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 08 APR 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <08 APR 2002 by cunninfx>; APPROVED <03 JUL 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECT: THIS BELGIAN GOVERNMENT'S CURRENT USE OF FISCAL MEANS AS AN ANTI-INFLATION TOOL  
**TAGS:** EFIN, EGEN, BE  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005